

Message Text

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PAGE 01 OTTAWA 00261 291931Z

61

ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 FEA-02 CIAE-00 DODE-00 PM-07

H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01

SPC-03 SS-20 USIA-15 COME-00 TRSE-00 INT-08 OMB-01

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ALSO FOR T/IEP

E.O. 11652: N/A

TAGS: ECON ENRG CA

SUBJECT: ENERGY; FINANCE MINISTER APPRAISES IMPACT OF OIL PRICE RISE

1. IN JANUARY 28 SPEECH TO CANADIAN CLUB OF TORONTO, FINANCE MINISTER JOHN TURNER DECLARED THAT ENERGY CRISIS "HAS THREATENED TO DISTORT CANADA'S WHOLE ECONOMIC AND FISCAL STRUCTURE." REFERRING TO CONFLICT ARISING FROM PROVINCIAL JURISDICTION OVER NATURAL RESOURCES AND FEDERAL GOVERNMENT RESPONSIBILITY TO PROVIDE REASONABLE EQUALITY OF ECONOMIC OPPORTUNITY, TURNER SAID CRISIS PRESENTED "CRITICAL CHALLENGE TO WHICH ALL OF US WERE ILL-PREPARED TO RESPOND."

2. TURNER NOTED THAT VOLUNTARY DOMESTIC OIL PRICE FREEZE AND EXPORT TAX ON OIL SHIPMENTS TO U.S. HELPED BUY TIME TO WORK OUT LONGER TERM SOLUTION. DEBATE ON SOLUTION HAS CENTERED ON "VERY REAL NEED TO RECONCILE LEGITIMATE INTERESTS OF OIL-PRODUCING PROVINCES IN RECEIVING FAIR RETURN FOR DEPLETING RESOURCE WITH BROADER NATIONAL INTEREST." MINISTER ADDED THAT LAST WEEK'S FEDERAL-PROVINCIAL ENERGY CONFERENCE SHOWED THAT THERE IS "SOME PROGRESS" TOWARD NATIONAL CONSENSUS. HE LISTED
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PAGE 02 OTTAWA 00261 291931Z

MAJOR ISSUES REMAINING TO BE SETTLED AS: EVENTUAL

OIL PRICE LEVEL; HOW QUICKLY TO PHASE IN THAT PRICE;
HOW TO SHARE REVENUES FROM HIGHER PRICE; AND HOW TO
PAY COSTS ("WHICH COULD RUN TO C\$1.5 BILLION") OF
PROVIDING PRICE SHELTER FOR EASTERN CANADA.

3. TURNER ESTIMATED THAT WITH DOMESTIC OIL CONSUMPTION
RUNNING AT 2 MILLION BARRELS PER DAY, PRICE INCREASE
TO PREVAILING INTERNATIONAL LEVEL OF \$10.50 PER BARREL
WOULD RESULT IN ANNUAL INCREASE OF C\$5 BILLION IN
CONSUMER COSTS AND OIL COMPANY OR GOVERNMENT REVENUE.
HE CONTINUED THAT IF ALL OF THE ADDITIONAL FUNDS WENT
INTO ALBERTA TREASURY (85 PERCENT OF CANADIAN CRUDE
PRODUCTION IS IN THAT PROVINCE), UNDER EXISTING SYSTEM
OF EQUALIZATION PAYMENTS, FEDERAL GOVERNMENT WOULD OWE
ADDITIONAL PAYMENTS OF OVER C\$2 BILLION WITH POSSIBILITY
OF ONTARIO AND BRITISH COLUMBIA BECOMING ELIGIBLE FOR
PAYMENTS AS "HAVE NOT" PROVINCES. TO FINANCE THESE
WINDFALL REVENUES TO PROVINCES, FEDERAL INCOME TAX
WOULD HAVE TO RISE BY 22 PERCENT. TURNER NOTED THAT
SUCH AN OUTCOME WOULD NOT BE MANAGEABLE ECONOMICALLY
OR POLITICALLY. "I FEEL I HAVE A PARTICULAR DUTY ON
BEHALF OF THE CANADIAN TAXPAYER TO SEE THAT HE IS NOT
INFLICTED AT THE SAME TIME WITH HIGHER TAXES AND HIGHER
PETROLEUM PRICES. I DON'T LIKE A SOLUTION REQUIRING THE
COST OF A PRICE SHELTER AND THE COST OF EQUALIZATION TO
BE TAKEN OUT OF THE POCKETS OF CANADIANS, RATHER THAN
FROM THE POOL OF REVENUE THAT HAS SUDDENLY BECOME
AVAILABLE BECAUSE OF THOSE HIGHER PRICES."

4. MINISTER SAID THAT IN 1974, WHILE ECONOMY WOULD BE
LESS AFFECTED BY ENERGY CRISIS THAN OTHER INDUSTRIAL
COUNTRIES, THREE MAJOR FACTORS WOULD INFLUENCE EXPANSION:
(1)) EXPORT GROWTH WOULD BE MORE MODERATE BECAUSE OF
SLOWER GROWTH IN ECONOMIES OF MAJOR TRADING PARTNERS;
(2) PROSPECT FOR EASING WORLD-WIDE INFLATIONARY PRESSURE
IS DIMMER BECAUSE OF HIGHER PETROEUM PRICES; AND (3)
RAPIDLY EXPANDING INVESTMENT WILL BE DRIVING FORCE
BEHIND ECONOMY REINFORCED BY RISING TEMPO OF INVESTMENT
IN NEW ENERGY RESOURCES.

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PAGE 03 OTTAWA 00261 291931Z

5. COPIES OF SPEECH BEING POUCHED.
JOHNSON

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